

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

PACIFIC ROLLFORMING, LLC,	)	Civil No. 07cv1897-L(JMA)
)	
Plaintiff,	)	ORDER (1) GRANTING
	)	PLAINTIFF'S EX PARTE
v.	)	APPLICATION FOR A
	)	TEMPORARY RESTRAINING
TRAKLOC INTERNATIONAL, LLC, <i>et</i>	)	ORDER; (2) GRANTING
<i>al.</i>	)	PLAINTIFF'S REQUEST FOR AN
	)	ORDER SHORTENING TIME; AND
Defendants.	)	(3) SETTING HEARING DATE AND
	)	BRIEFING SCHEDULE ON
	)	PLAINTIFF'S MOTION FOR A
	)	PRELIMINARY INJUNCTION

Plaintiff Pacific Rollforming, LLC dba Trakloc Pacific ("Pacific"), filed a complaint for breach of contract, fraud, breach of implied covenant of good faith and fair dealing, defamation, interference with prospective business advantage and violation of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), 18 U.S.C. § 1961 *et seq.* The dispute arises primarily out of a Master Area License Agreement ("License Agreement") whereby Defendant Trakloc International, LLC ("TLI") granted Pacific a license to manufacture and market a certain proprietary drywall and stud framing system ("Trakloc"). Defendant Trakloc North America ("TLNA"), allegedly TLI's successor-in-interest, issued a notice of termination of Pacific's License Agreement and allegedly interfered with Pacific's business in Nevada. On October 30, 2007, prompted by the alleged interference, Pacific filed an ex parte motion for a temporary

1 restraining order (“TRO”), motion for a preliminary injunction and a request for an order
2 shortening time. Pacific argues a TRO is required because TLNA’s unlawful conduct is
3 threatening to put Pacific out of business. Defendants TLNA and its President David Jablow
4 (collectively “TLNA”) opposed Pacific’s motions. They argue they are not interfering with
5 Pacific’s sales in Nevada because their interests are aligned with Pacific’s. For the reasons
6 which follow, Pacific’s ex parte application for a TRO is **GRANTED**.

7 Pursuant to 28 U.S.C. § 1331, the court has subject matter jurisdiction over the action
8 because it arises under RICO, a federal statute.

9 The purpose of preliminary injunctive relief, including a temporary restraining order, “is
10 to preserve the *status quo* pending a determination of the action on the merits.” *Chalk v. U.S.*
11 *Dist. Ct. (Orange County Superintendent of Sch.)*, 840 F.2d 701, 704 (9th Cir. 1988). “The
12 *status quo ante litem* refers not simply to any situation before the filing of a lawsuit, but instead
13 to the last uncontested status which preceded the pending controversy.” *GoTo.com, Inc. v. The*
14 *Walt Disney Co.*, 202 F.3d 1199, 1210 (9th Cir. 2000). A party seeking preliminary injunctive
15 relief, including a temporary restraining order, under Rule 65 must show either (1) a
16 combination of probable success on the merits and the possibility of irreparable harm, or (2) that
17 serious questions going to the merits are raised and the balance of hardships tips sharply in the
18 moving party's favor. *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1119 (9th Cir.
19 1999). “These two formulations represent two points on a sliding scale in which the required
20 degree of irreparable harm increases as the probability of success decreases.” *Roe v. Anderson*,
21 134 F.3d 1400, 1402 (9th Cir. 1998).

22 It is undisputed that Pacific entered into an exclusive License Agreement with TLI to
23 manufacture, distribute and sell the proprietary Trakloc system in several states, including
24 Nevada. TLNA maintains it acquired TLI’s interest in the License Agreement in July 2007.
25 Pacific argues that on September 12, 2007, TLNA wrongfully issued a thirty-day notice of
26 termination of the License Agreement. In addition, TLNA, together with Defendants Bert Tabor
27 (“Tabor”), Thomas Horst (“Horst”), Southeastern Metals, Inc., and its President Gary Nelson, Jr.
28 (“Nelson”), contacted Pacific’s Trakloc customers and prospective customers in Las Vegas,

1 Nevada, to solicit business from them by falsely representing that Pacific's Trakloc products
2 were not ICC certified and that Pacific was no longer a Trakloc licensee.

3 In the opposition, TLNA initially maintains that the court should disregard much of
4 Pacific's evidence as hearsay. In the TRO context, "[t]he trial court may give even inadmissible
5 evidence some weight, when to do so serves the purpose of preventing irreparable harm before
6 trial." *Flynt Distributing Co., Inc. v. Harvey*, 734 F.2d 1389, 1394 (9th Cir. 1984).

7 Accordingly, the court gave both sides' hearsay¹ some weight for purposes of considering
8 Pacific's application for a TRO.

9 TLNA also maintains that its efforts in Las Vegas, Nevada are not intended to damage
10 Pacific's business under the License Agreement, but only to help Pacific since TLNA's and
11 Pacific's interests are aligned. This argument is not supported by the declarations filed by
12 TLNA or by the copious correspondence between TLNA and Pacific in the late summer and
13 early fall 2007.

14 In the notice of termination letter, TLNA alleged Pacific was in monetary and non-
15 monetary default under the License Agreement. Although TLNA acknowledged the existence of
16 an elaborate provision governing license termination by licensor, it expressly refused to follow
17 it. (Phillips Decl. Exh. 1; First Am. Compl. Exh. 1 (License Agreement) ¶ 20.2.) Accordingly,
18 TLNA's 30-day notice of termination appears to have been in violation of the express terms of
19 the License Agreement.²

20 Even before the expiration of the 30-day cure period, TLNA stepped up its efforts to
21 interfere with Pacific's performance under the License Agreement and discredit it in its
22 exclusive license territory. TLNA had its counsel write to Pacific's counsel to demand Pacific
23

24 ¹ The declarations filed in support of TLNA's opposition were themselves filled
25 with hearsay.

26 ² Moreover, it also appears that some of the alleged non-monetary grounds for
27 termination were in fact TLNA's defaults under the License Agreement rather than Pacific's.
28 For example, TLNA maintained Pacific failed to obtain ICC certification. Aside from the fact
that Pacific submitted evidence that it had the requisite certification (*see* Phillips Decl. Exh. 3,
5), the duty to obtain the certification was the licensor's not licensee's (License Agreement ¶
16.5).

1 cease communicating with TLNA regarding operational issues under the License Agreement.
 2 (Phillips Decl. Exh. 2.) TLNA threatened Pacific with a lawsuit if it appeared at the Metalcon
 3 International trade show in Las Vegas from October 3 through 5, where Pacific was to have a
 4 Trakloc booth. (Phillips Decl. Exh. 4 & 5.) TLNA wrote to another Trakloc licensee, Trakloc
 5 Mid-America, to inform them Pacific was in default and that as of October 12, 2007, they may
 6 be prohibited from supplying Pacific with the a certain slotted TSE part Pacific was using in
 7 manufacturing the Trakloc system.³ (See Samide Decl. Exh. 2.) TLNA's declarations
 8 demonstrate that TLNA together with Nelson, Tabor and Horst, came to Las Vegas to meet with
 9 Pacific's existing and prospective customers and solicited their business. This was in itself in
 10 violation of the License Agreement, which prohibits licensor interference with licensees'
 11 business in their exclusive territories and prohibits the licensor from enabling third parties, such
 12 as Southeastern Metals, Inc., Nelson, Tabor and Horst, to market Trakloc in another licensee's
 13 exclusive territory. (See License Agreement ¶¶ 4.2 - 4.4.)

14 TLNA claims it is not interfering with Pacific's customer relationships, but merely
 15 assisting Pacific's customers who were dissatisfied with Pacific's service. The default provision
 16 of the License Agreement provides a remedy for this situation. When the licensee is in default
 17 so as to fail to generate sufficient sales to pay minimum royalties, as TLNA claims Pacific is, the
 18 licensor's remedy is to evaluate the licensee's operations and make recommendations to assist
 19 the licensee for at least one year in improving its sales in the territory. (*Id.* ¶ 20.2.) TLNA
 20 expressly refused to follow this provision.⁴ Based on the foregoing, Pacific has shown a strong

21
 22 ³ On October 12, 2007, TLNA informed all licensees "that they are prohibited by
 23 the terms of their respective license agreements from marketing, selling or distributing
 24 TRAKLOC products outside their respective territories. Additionally, any consents which
 25 TLNA may have given to permit a licensee to market, sell or distribute TRAKLOC products
 26 outside of that licensee's territory are hereby revoked." (Phillips Decl. Exh. 8.) The effect of
 this letter was to terminate Pacific's supply of the part it was ordering from Trakloc Mid-
 America. Furthermore, TLNA's instruction to its licensees in this regard appears to have been in
 violation of the License Agreement. (See License Agreement ¶¶ 2.1, 7.5, 8.6, 12.5; *see also*
 Darmody Decl. ¶ 3.)

27 ⁴ TLNA also argues that lack of ICC certification on Pacific's Trakloc products
 28 raises a public safety issue and should weigh against granting a TRO. This argument is
 unsupported by evidence, admissible or inadmissible. Moreover, the duty under the License
 Agreement to obtain the certification rests with TLNA as the licensor. (License Agreement ¶

1 probability of success on the merits.⁵

2 The court next considers whether Pacific has also made the requisite showing of
3 possibility of irreparable harm. *See Sun Microsystems*, 188 F.3d at 1119. “[E]conomic injury
4 alone does not support a finding of irreparable harm, because such injury can be remedied by a
5 damage award. . . . However, . . . intangible injuries such as damage to . . . goodwill, qualify as
6 irreparable harm.” *Rent-a-Center, Inc. v. Canyon Television and Appliance Rental, Inc.*, 944
7 F.2d 597, 603 (9th Cir. 1991) (damage to advertising efforts and goodwill held irreparable
8 harm). The factors supporting irreparable harm determination include inability to calculate
9 damages, harm to goodwill, diminishment of competitive positions in marketplace, and lost
10 opportunities to distribute unique products. *Dominion Video Satellite, Inc. v. Echostar Satellite*
11 *Corp.*, 356 F.3d 1256, 1263 (9th Cir. 2004). Pacific has sustained damage to its marketing
12 efforts, diminishment in its competitive position in the Las Vegas market, loss of sale
13 opportunities in its exclusive territory, and damage to the goodwill it had invested in and created
14 with its customers in Las Vegas. Such damage would be difficult to quantify and therefore
15 constitutes possible irreparable harm. *See Rent-a-Center*, 944 F.2d at 603.

16 TLNA maintains that granting Pacific’s TRO application will visit irreparable harm on
17 TLNA because it will damage its marketing and customer relations efforts it made in Las Vegas
18 over the past few months. Because these marketing and customer relations efforts appear to
19 constitute interference with Pacific’s business in Nevada, this argument lacks merit. TLNA as
20 licensor is prohibited from directly or indirectly marketing Trakloc system in a licensee’s
21 exclusive territory or assisting any third party in such endeavors. (See License Agreement ¶¶ 4.2
22 -4.4.)

23 /////

24 _____
25 16.5.) On the other hand, Pacific presented evidence, albeit probably inadmissible, that it had
obtained the requisite certification. (See Phillips Exh. 5.)

26 ⁵ In addition, both parties allude to, but do not directly address, another issue going
27 directly to the merits. It appears the issue whether TLNA in fact acquired the licensor interest
28 under the License Agreement is presently the subject of litigation. (See TLNA Memo. of P. &
A. at 2; Phillips Decl. Exh. 9.) If TLNA is not the licensor, then Pacific’s probability of success
on the merits against TLNA is greater.

1 Having shown a strong likelihood of success on the merits and possibility of irreparable
2 harm, Pacific is entitled to a TRO. The parties disagree on the amount of the bond Pacific
3 should be required to post. While Pacific proposes a \$25,000 bond, TLNA claims that no less
4 than \$ 2.2 million on a monthly basis will do.

5 District courts have wide discretion in setting the amount of the bond. *Walczak v. EPL*
6 *Prolong, Inc.*, 198 F.3d 725, 733 (9th Cir. 1999). The bond amount may be set at zero if there is
7 no evidence the party will suffer damages from the injunction. *Gorbach v. Reno*, 219 F.3d 1087,
8 1092 (9th Cir. 2000). Furthermore, in the Ninth Circuit the language of Rule 65(c) does not
9 “absolve[] the party affected by the injunction from its obligation of presenting evidence that a
10 bond is needed, so that the district court is afforded an opportunity to exercise its discretion in
11 setting the amount of the bond.” *Connecticut Gen. Life Ins. Co. v. New Images of Beverly Hills*,
12 321 F.3d 878, 883 (9th Cir. 2003).

13 It is unclear how TLNA calculated the bond amount. It argues that 30 million lineal feet
14 of Trakloc system are anticipated to be sold over an unspecified period of time, which would
15 generate \$1.2 million in base royalty fees under the License Agreement.. (TLNA Mem. of P. &
16 A. at 7.) However, TLNA is requesting a bond for \$2.2 million. (*Id.* at 8.) Even the \$1.2
17 million bond is excessive. The 30 million lineal feet estimate is based on the declaration of
18 Pacific’s President that Pacific has a “back log of over 30,000,000 feet of product . . . either on
19 order or in the pipeline for future order.” (Beasley Decl. at 3.) Based on the declarations filed
20 by both parties, it is not at all certain whether these orders will in fact be placed due to the
21 confusion caused by representations made by TLNA, Southeastern Metals, Inc., Nelson, Tabor
22 and Horst, that Pacific’s products are not ICC certified and that Pacific is no longer a Trakloc
23 licensee. (See Jablow Supp. Decl. at 2; Beasley Decl. at 6-7.) It is unclear how much Trakloc
24 product will be sold at all. To the extent sales will be made, it is unclear over what period of
25 time. Finally, the License Agreement calls for payment of base royalty fees only when payment
26 is received (License Agreement, Schedule B), and it is unclear when payment will be received
27 on any of the sales actually made. Accordingly, TLNA has not met its burden regarding the
28 bond. See *Connecticut Gen. Life Ins. Co.*, 321 F.3d at 883.

1 The License Agreement obligates Pacific to pay, starting 24 months after first production,
2 a minimum royalty fee of \$44,000 per year for the Nevada territory. (License Agreement,
3 Schedule B.) Accordingly, the court finds the \$25,000 bond proposed by Pacific to be
4 reasonable for purposes of its TRO application.

5 For the foregoing reasons, Pacific's ex parte application for a TRO is **GRANTED** as
6 follows, pending a hearing on its motion for a preliminary injunction:

7 1. Trakloc North America, LLC and its officers and agents are prohibited from
8 restricting shipment of the slotted TSE part from Trakloc North America's licensee Trakloc Mid-
9 America to Pacific Rollforming, LLC dba Trakloc Pacific; and

10 2. Trakloc North America, LLC and its officers and agents, Southeastern Metals, Inc.,
11 Gary Nelson, Jr., Bert Tabor and Thomas Horst are prohibited from (1) claiming that they, or
12 any of them, are the authorized licensees for the Trakloc system in Nevada; (2) claiming that
13 Trakloc Pacific is not the lawful licensee; and (3) contacting Trakloc Pacific's existing
14 customers and prospective customers for the purpose of soliciting business or otherwise
15 interfering with Trakloc Pacific's existing or prospective contracts.

16 This order is conditioned on Pacific posting a bond in the amount of \$25,000 as security
17 for the payment of such costs and damages as may be incurred or suffered by any party who is
18 found to have been wrongfully enjoined or restrained.

19 Pacific's request for an order shortening time on its motion for a preliminary injunction is
20 **GRANTED**. Pacific's motion for a preliminary injunction is set for an **evidentiary hearing** on
21 **November 20, 2007 at 10:30 a.m.** As the parties have already filed voluminous papers, no
22 additional briefing will be accepted by the court except as follows:

23 1. No later than November 13, 2007 at 4:30 p.m. Pacific shall file a memorandum of
24 points and authorities no longer than fifteen (15) pages and supporting evidence, if any,
25 addressing the following issues: (1) any and all lawsuits pertaining to the status of TLNA as
26 licensor, including the parties, court, and the status of each such lawsuit; (2) the status of ICC
27 certification of Pacific's Trakloc products; and (3) the appropriate bond amount if a preliminary
28 injunction is granted.

2. No later than November 15, 2007 at 4:30 p.m., Defendants shall file a responsive memorandum of points and authorities no longer than fifteen (15) pages and supporting evidence, if any, addressing the same issues.

The court will entertain only admissible evidence for purposes of ruling on Pacific's motion for a preliminary injunction. Due to the evidentiary deficiencies in the declarations filed in support of and in opposition to Pacific's ex parte application for a TRO and its motion for a preliminary injunction, the parties are expected to produce witnesses at the evidentiary hearing.

IT IS SO ORDERED.

DATED: November 7, 2007


M. James Lorenz
United States District Court Judge

COPY TO:

HON. JAN M. ADLER
UNITED STATES MAGISTRATE JUDGE

ALL PARTIES/COUNSEL